

## HEALTH CARE COSTS

### MISSION STATEMENT

To develop and coordinate budgets, policies and procedures for the county's health care departments in accordance with the strategic goals adopted by the Board of Supervisors, the County Charter, and general laws.

### DESCRIPTION OF MAJOR SERVICES

The role of the Health Care Services Division is to seek and support opportunities to foster collaboration among the Public Health Department, Department of Behavioral Health (DBH) and the Arrowhead Regional Medical Center (ARMC). The division provides regular fiscal and policy analysis relating to the operations of these departments. The division also reviews and analyzes all agenda items submitted for Board of Supervisors approval as well as all budget submittals and reports relating to San Bernardino County's health care programs. Additionally, this division manages the \$156.4 million Health Care Costs budget, which includes funding for ARMC debt service, health related maintenance of effort costs, and transfers required to obtain federal health care funding.

This budget unit represents the costs of health care related programs for the county general fund. Health care related transactions represented by this budget unit include the Disproportionate Share Hospital (DSH) Supplemental Payments Programs (SB 855, SB 1255, and Graduate Medical Education (GME)), Realignment "AB 8" match, and the county's contribution for ARMC debt service payments. Summary information regarding key components of this budget unit appears below.

#### **Disproportionate Share Hospital Programs**

The DSH programs were established to provide supplemental Medi-Cal payments to hospitals that provide services to disproportionate numbers of Medi-Cal and other low-income patients. These programs assist safety net hospitals in meeting the uncompensated costs associated with providing medical services to uninsured and underinsured patients. These programs are mechanisms for distributing federal health care funds. The programs require the county to transfer general fund dollars (shown in this budget unit as other charges) to the state. Through a matching process, the county receives back its initial contribution, which is recorded in this budget unit as current services revenue. In addition to the return of the initial contribution, the county receives federal health dollars which are accounted for in the ARMC budget. The level of the County's contribution is set during the year by the state. As a result, the amounts only represent estimates of the funds needed at the time the budget is prepared. In a similar fashion, the ARMC budget cannot fully reflect the amount of federal health dollars received via DSH programs until the county is notified of the matching amounts during the course of the fiscal year. The DSH program comprises two elements:

- The SB 855 program provides supplemental payments to hospitals that serve a disproportionate number of low-income individuals. Public entities are required to transfer funds to the State Department of Health Services by an intergovernmental transfer. These funds are matched with federal funds and redistributed as supplemental payments to all eligible hospitals including non-public hospitals. A hospital may receive DSH payments if its Medi-Cal utilization rate exceeds an established threshold or it uses a designated percentage of its revenues to provide health care to Medi-Cal and uninsured patients.
- The SB 1255 program supplements eligible hospitals that are licensed to provide emergency medical services and contract with the California Medical Assistance Commission (CMAC) to serve Medi-Cal patients under the Selective Provider Contracting Program. Intergovernmental transfers are also made. These funds are combined with matching federal funds and redistributed by CMAC as supplemental payments to hospitals demonstrating a need for additional funds. CMAC ultimately determines the amount received by each participating hospital.
  - The GME program is part of the SB 1255 program and it provides supplemental payments to DSH hospitals that are also a teaching facility/institute. Payments are determined solely by CMAC and the amount can vary from year to year. Similar to other SB 1255 revenues, the amount actually received is determined by the state during the course of the fiscal year.



It is important to note that the state and the federal governments are currently considering other funding mechanisms that could eliminate the DSH programs. Since no changes have been approved, this budget assumes that the current funding system will be in place during 2005-06.

### **Realignment and General Fund Support**

General fund support and realignment funds are used to pay for the ARMC debt service lease payments, Realignment "AB 8" match and administrative costs related to this budget unit. Note: Specific details regarding the financing sources, which are used to cover the county's \$53.5 million annual debt service obligation for the ARMC facility, are provided in the ARMC Lease Payments (EMD JPL) section of the Proposed Budget.

To qualify for receipt of Health Realignment funding from the state, the county must contribute a "match" of local funds. The matching amount is based on a formula, established through AB 8 in 1979, through which the state provided funding to preserve critical health programs in the aftermath of Proposition 13. When the Realignment program was created in 1991, funding allocations were based on the historical AB 8 formula, and local match requirements remained. The county's match requirement for 2005-06 is \$4.3 million; this amount remains constant each year per the historical formula. The Realignment match funded in the Health Care Costs budget meets the county's full obligation to receive Health Realignment dollars, which support the Public Health Department and Arrowhead Regional Medical Center. For 2005-06, the county anticipates receipt of approximately \$60.3 million in Health Realignment funding. Important note: The local match requirement for receipt of Mental Health Realignment funding is reflected in the operating budget for the Department of Behavioral Health.

Realignment funds support this budget as follows:

- Mental Health at 2.5% (which covers half of administrative costs).
- Health at 97.5% (which covers half of administrative costs plus debt service payments).

The amounts listed as "Operating Transfers Out" represent the county's net debt service obligation for the payment of the Arrowhead Regional Medical Center facility (\$21.5 million) and the required Realignment "AB 8" match (\$4.3 million) which must by law be transferred into trust before Realignment monies can be directed toward health programs.

### **BUDGET AND WORKLOAD HISTORY**

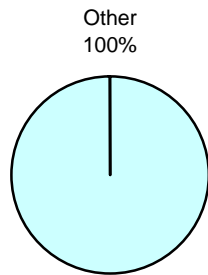
	<b>Actual 2003-04</b>	<b>Budget 2004-05</b>	<b>Estimate 2004-05</b>	<b>Proposed 2005-06</b>
Appropriation	135,996,594	135,812,669	147,061,214	156,463,745
Departmental Revenue	120,996,594	120,812,669	132,061,214	141,463,745
Local Cost	15,000,000	15,000,000	15,000,000	15,000,000
Budgeted Staffing		4.0		4.0

The variance between estimated and budgeted appropriation and revenues of \$11.3 million occurred in the following areas:

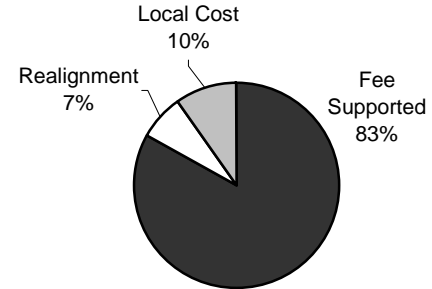
1. Lower than anticipated salaries and benefits and services and supplies (-\$0.4 million) due to unexpected vacancies thus reducing realignment usage,
2. Higher than anticipated other charges (\$5.0 million) as the county's requirement to transfer funds to participate in the Disproportionate Share Hospital programs is not determined until later in the fiscal year. Since these expenses are fully offset by an equivalent amount of revenue (recorded as current services), any variance has no impact on local cost.
3. Higher than anticipated operating transfers out and realignment as a result of a lower reimbursement rate from the state for SB 1732. The reduction in state reimbursements' is due to a decrease in ARMC's Medi-Cal Utilization rate. This rate is calculated on an annual basis by the state and it fluctuates up or down based on the number of ARMC's paid Medi-Cal inpatient days compared to other public hospitals in the State of California. As a result of this \$6.7 million adjustment, more transfers from realignment were needed to cover the Medical Center's Lease Payments. The Medi-Cal Utilization rate is not determined until the end of the fiscal year. Consequently, an annual adjustment to operating transfers out and realignment is necessary.



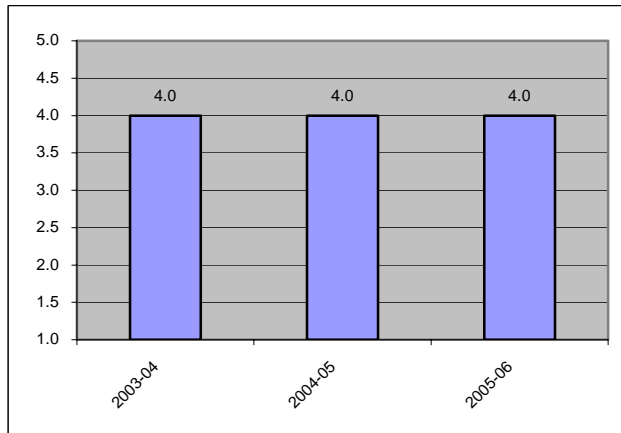
## 2005-06 BREAKDOWN BY EXPENDITURE AUTHORITY



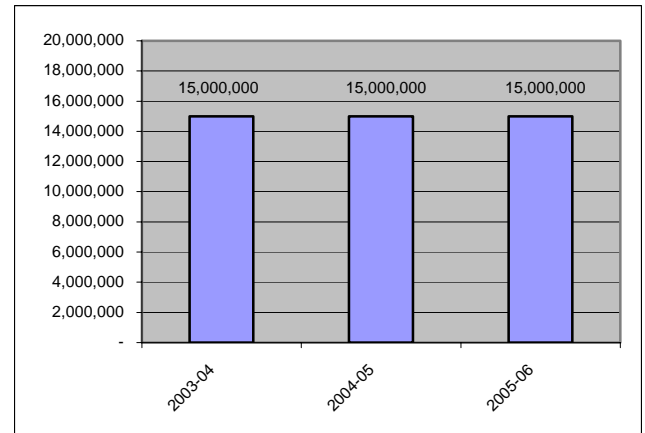
## 2005-06 BREAKDOWN BY FINANCING SOURCE



2005-06 STAFFING TREND CHART



2005-06 LOCAL COST TREND CHART



GROUP: Administrative/Executive  
DEPARTMENT: Health Care Costs  
FUND: General

BUDGET UNIT: AAA HCC  
FUNCTION: Health and Sanitation  
ACTIVITY: Hospital Care

## ANALYSIS OF 2005-06 BUDGET

	A	B	C	D	B+C+D E	F Department Recommended Funded Adjustments (Schedule A)	E+F G
	2004-05 Year-End Estimates	2004-05 Final Budget	Cost to Maintain Current Program Services	Board Approved Adjustments	Board Approved Base Budget		2005-06 Proposed Budget
<b>Appropriation</b>							
Salaries and Benefits	118,710	472,585	26,835	-	499,420	(27,662)	471,758
Services and Supplies	35,082	85,302	839	-	86,141	-	86,141
Central Computer	710	710	1,811	-	2,521	-	2,521
Other Charges	115,000,000	110,000,000	-	-	110,000,000	20,000,000	130,000,000
Transfers	81,104	87,920	-	-	87,920	20,888	108,808
Total Appropriation	115,235,606	110,646,517	29,485	-	110,676,002	19,993,226	130,669,228
Operating Transfers Out	31,825,608	25,166,152	-	-	25,166,152	628,365	25,794,517
Total Requirements	147,061,214	135,812,669	29,485	-	135,842,154	20,621,591	156,463,745
<b>Departmental Revenue</b>							
Realignment	17,061,214	10,812,669	29,485	-	10,842,154	621,591	11,463,745
Current Services	115,000,000	110,000,000	-	-	110,000,000	20,000,000	130,000,000
Total Revenue	132,061,214	120,812,669	29,485	-	120,842,154	20,621,591	141,463,745
Local Cost	15,000,000	15,000,000	-	-	15,000,000	-	15,000,000
Budgeted Staffing		4.0	-	-	4.0	-	4.0



In 2005-06 the department will incur increased costs in retirement, workers compensation, central computer charges and inflationary services and supplies purchases. In addition, this budget unit included an estimated increase in salaries and benefits related to the pending negotiations, as this cost is financed by departmental revenues. These increased costs are reflected in the Cost to Maintain Current Program Services column.

Department recommended changes include: 1) a \$20.0 million increase in other charges with a corresponding revenue offset in current services to fulfill the county's obligations under the SB 855 and SB 1255 programs; and 2) a 0.6 million increase in operating transfers out and realignment due to an increase in ARMC's debt service payments.

DEPARTMENT: Health Care Costs  
FUND: General  
BUDGET UNIT: AAA HCC

## SCHEDULE A

## DEPARTMENT RECOMMENDED FUNDED ADJUSTMENTS

Brief Description of Program Adjustment	Budgeted Staffing	Appropriation	Departmental Revenue	Local Cost
1. Decrease in Salaries and Benefits. Decreased costs due to turnover and anticipating to hire at a lower step. Changes also include deleting an Executive Secretary II and adding an Executive Secretary III as the Health Departments are now directly under the County Administrative Office.		(27,662)	-	(27,662)
2. Increase in Other Charges and Current Services. Required intergovernmental transfers to the state for SB 855 and SB 1255 programs have been increasing during the past years. The amount requested represents the estimated increase needed to fulfill the county's obligation under these programs.		20,000,000	20,000,000	-
3. Increase in Transfers Out. - Eliminate transfer of \$7,000 to Human Services System (HSS) for administrative support that is no longer needed due to the reorganization. - Eliminate transfer of \$80,156 to the County Administrative Office for budget and administrative support that is no longer needed. - EHAP charges increased by \$44. - Increase transfers by \$108,000 to the Legislative budget unit due to additional legislative support provided to the Health Departments.		20,888	-	20,888
4. Increase in Operating Transfers Out. This increase is related to the increase in Arrowhead Regional Medical Center's debt service payments.		685,160	-	685,160
5. Increase in Realignment. Overall, realignment increased due to the increased in ARMC lease payments and increase in transfers for legislative support partially offset by decreases in salary and benefits.		-	678,386	(678,386)
<b>Total</b>	-	20,678,386	20,678,386	-

